

NCA
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TIP: CAN IT CONTAIN U.S. INFLATION?

ANNCR:

THE IMMEDIATE ECONOMIC PRIORITY IN THE UNITED STATES IS TO CONTAIN INFLATION. AND A NEW THEORY TO ADVANCE THIS GOAL IS SOMETHING CALLED THE "TAX-BASED INCOMES POLICY" -- TIP FOR SHORT, VOA BUSINESS AND ECONOMICS EDITOR FRANK FEINBERG HAS A BACKGROUND REPORT ON THIS WIDELY DISCUSSED IDEA:

VOICE:

THE TAX-BASED INCOMES POLICY BASICALLY AIMS AT CONTAINING INFLATION BY HOLDING DOWN WAGE INCREASES, WHICH IN TURN SHOULD RESULT IN LOWER PRICE INCREASES. TIP'S PROPONENTS SAY THAT IN THE LONG RUN, THE PRICE LEVEL OF MOST GOODS AND SERVICES IN AN INFLATIONARY PERIOD LARGELY REFLECTS WAGE INCREASES THAT ARE IN EXCESS OF PRODUCTIVITY INCREASES. THEREFORE, TIP'S ADVOCATES WOULD LIMIT ANY ANNUAL WAGE HIKES TO THE PREVAILING PRODUCTIVITY RATE PLUS ONE-HALF OF THE PREVAILING U.S. INFLATION RATE.

AT PRESENT, THIS FORMULA WOULD ADD UP TO A WAGE GAIN OF ABOUT SIX PER CENT, WHICH IS LOWER THAN THE AMOUNT AGREED TO BY MAJOR UNIONS IN WAGE SETTLEMENTS NEGOTIATED OVER THE PAST SEVERAL YEARS. IN RETURN FOR HOLDING DOWN WAGE AND PRICE INCREASES, BOTH WORKERS AND COMPANIES WOULD RECEIVE TAX CREDITS THAT TIP'S PROPONENTS HOPE WOULD PROVIDE ADDED INCOME WITHOUT FUELING INFLATION.

THE TIP SUPPORTERS SAY THEIR PLAN WOULD HALT THE WAGE-PUSH -- PRICE SPIRAL PATTERN THAT NOW PERVADES THE U.S. ECONOMY. ECONOMIST ARTHUR OKUN, WHO WAS PRESIDENT KENNEDY'S CHIEF ECONOMIC ADVISER, SAYS THE TIP STRATAGEM WOULD CONTAIN

INFLATION WITHOUT REDUCING LIVING STANDARDS. HENRY WALLICH, A MEMBER OF THE FEDERAL RESERVE BOARD -- THE U.S. CENTRAL BANK-- SAYS TIP COULD REDUCE THE U.S. INFLATION RATE TO FOUR PER CENT IN POSSIBLY A TWO-YEAR PERIOD.

TIP SUPPORTERS POINT TO RECENT BRITISH EXPERIENCE AS INDICATING THAT WHEN WAGE INCREASES ARE RESTRAINED, A LOWER INFLATION RATE RESULTS.

NOT ALL ECONOMISTS AND OTHER AUTHORITIES FAVOR THE TIP IDEA. OPPONENTS SAY IT WOULD BE "AN ADMINISTRATIVE NIGHTMARE" REQUIRING MANY MORE BUREAUCRATS. TAX EXPERTS SAY TIP RUNS COUNTER TO THE GOAL OF SIMPLIFYING THE U.S. TAX SYSTEM. OTHER OPPONENTS SAY THAT CONTROLLING WAGES THROUGH TIP WOULD REQUIRE ENDLESS PAGES OF DEFINITIONS, REGULATIONS AND RULINGS.

THE VERSION OF TIP NOW BEING ESPOUSED HAS NEVER BEEN TESTED IN THE UNITED STATES OR ANY OTHER COUNTRY. BUT WITH THE U.S. INFLATION RATE NOW RUNNING AT A RELATIVELY HIGH RATE, THERE IS CONSIDERABLE SENTIMENT IN INFLUENTIAL CIRCLES TO PURSUE THE TIP IDEA. AS ONE WHITE HOUSE POLICYMAKER SAYS: TIP FACES MANY PRACTICAL PROBLEMS, BUT THERE ARE FEW ALTERNATIVES.

WJL/PY